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AUTHOR Pulver, Glen C.
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ABSTRACT

For many years, developers have placed near total reliance on increased productivity in agriculture, greater exploitation of natural resources, and the addition of new manufacturing industries as strategies for community economic development in nonmetropolitan areas. The concentration on expanding goods producing industries is unnecessarily narrow. Other viable community economic development alternatives are available and should be considered. Before initiating community economic development strategy, a careful analysis of the unique needs, resource availability, market conditions, and the needs of goals of the community's citizens should be made. These factors are the base upon which development policy must be built. Community policy options that can then be considered are: (1) attracting new basic employers from the nonmanufacturing sector; (2) improving the efficiency of existing firms; (3) encouraging the formation of new businesses; (4) improving the ability to capture more of the existing income; and (5) increasing aid received from broader governmental levels. This paper examines these alternatives and discusses different kinds of options policy holders may utilize to implement each of them. (Author/DS)

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A THEORETICAL FRAMEWORK FOR ANALYSIS OF COMMUNITY ECONOMIC DEVELOPMENT POLICY OPTIONS

by

Glen C. Pulver

Summary

For many years, developers have placed near total reliance on increased productivity in agriculture, greater exploitation of natural resources, and the addition of new manufacturing industries as strategies for community economic development in nonmetropolitan areas. The study of secondary data from the International Labor Office and the United States Bureau of Labor Statistics indicates that the rate of job growth in goods-producing industries is declining rapidly in highly-developed countries. In contrast, employment in the service sector is increasing. As a consequence, alternative strategies for economic growth must be found in postindustrial economies.

This paper, a theoretical framework for analysis of community economic development policy options, indicates the existing concentration on expanding goods-producing industries is unnecessarily narrow. Improving efficiency of existing firms, attracting new basic employers from the nonmanufacturing sector, encouraging business formation, capturing more of the existing income,

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Presented at the "Nonmetropolitan Industrial Growth and Community Change" seminar, San Francisco, California, September 3, 1978. Glen C. Pulver is Professor of Agricultural Economics, University of Wisconsin-Madison.

and increasing aids received from broader governmental levels are all viable community economic development alternatives. A comprehensive policy which considers all options may allow nonmetropolitan areas to participate fully in future economic growth.

Overview

Improved community economic well-being as measured by individual income and employment is of concern to policy makers throughout the world. In spite of numerous governmental programs including developmental credit, income maintenance, public education, affirmative action in employment, job training, and trade protection, a large portion of the world's people suffer the problems associated with low family income. In lesser-developed countries, the problems are widespread. In more-developed countries, a smaller proportion of the people may be directly affected, but broad concern for income and employment is fueled by rising taxes, higher rates of inflation, and expanded unemployment.

National, subnational (e.g. state, provincial) and local policy makers are of necessity attempting to outline strategies aimed at optimizing opportunities for economic development at the community level. Locally, industrial development organizations, economic development committees, business groups, and government officials develop industrial parks, prepare promotional brochures, and sponsor special events in an effort to attract more income and employment to their community. State and provincial officials employ industrial developers, provide special tax incentives, and produce tourism promotional programs in a

similar effort. On a national level, mechanisms for improving both individual and community income and employment include: regional development commissions, direct credit or guarantees to businesses, protective tariffs, and assistance to individuals.

Rarely are public investments in economic well-being based on comprehensive analysis of the opportunities which communities have for development. Most are connected to an historic preoccupation with goods-producing industries, especially manufacturing. Manufacturing has been viewed by many as the most effective vehicle to create jobs and to provide a long-term basis for income growth. This bias is derived from the perception that manufacturing has been the major source of economic growth in modern Western development. While the common assumption seems to be that this will continue in the near future, there are strong indications that this may not be the case.

The United States economy has changed substantially in the past few years. Since World War II, the historic dominance of goods-producing industries (agriculture, forestry, fishing, mining, construction, manufacturing) has been replaced by the service sector. In 1947, employment was almost evenly distributed between the goods-producing and service-producing sectors. By 1970, service industries had increased their share to approximately two-thirds of total national employment. The projection for 1985 is that only 29 percent of the United States employment will be in goods-producing industries. Manufacturing is not among the ten industries projected to show the largest increases in number of jobs between 1968 and 1985. The only goods-producing industry to appear on the list is construction, and it ranks eighth.[1/]

TABLE 1

WORLD EMPLOYMENT BY ECONOMIC SECTOR

	Egypt	Mozambique	Brazil	U.S.	India	Japan	Sweden	URSS (Russia)	
	(as percent of total employment)							[productive]	
1 Agriculture, hunting, forestry, fishing	53.3	73.4	44.3	3.8	72.0	12.5	6.4	26.3	same as #1
2 Mining, quarrying	0.2	4.3	0.6	0.8	0.5	0.3	0.5	45.1	industry, constructio
3 Manufacturing	12.9	5.4	11.0	22.7	9.5	25.2	28.0		transport, communic.
4 Electric, gas, water	0.6	0.1	0.5	1.3	0.3	0.6	0.8	6.7	trade, publ dining, material-
5 Construction	2.5	2.8	5.8	6.2	1.2	9.0	7.1		tech. suppl
6 Wholesale/ retail trade, rest., hotels	7.2	2.8	7.7	20.0	4.9	21.1	14.4	0.5	other productive
								[non-productive]	
7 Transport, storage, and communic.	4.1	2.2	4.2	5.0	2.4	6.2	6.7		educational cultural, scientific &
8 Finance, ins., real estate, business svc.	14.9	0.2	1.5	5.2	0.7	3.2	5.3	14.2	research institutes & public heal
9 Community, social & personal services		7.9	22.0	31.8	7.8	20.8	30.8	6.8	admin., communic. housing services, banking & insurance
0 Act. not adequately descr.	4.3	0.1	2.4		0.7	0.2			
1st time seeking work				0.9					
Unemployed						1.9			
Military Service				2.3					

SOURCE: 1976 Yearbook of Labour Statistics, International Labour Office, Geneva, Switzerland; Table 2-A, pp. 50-166. Note: Data is not necessarily comparible or completely accurate, but it's the best available. Some figures are based on census data, others on statistical samples. "Employed" equals employers, self-employed and wage earners, plus unemployed, unless specifically broken out into separate category.

Similar conclusions might be drawn when looking at the employment structure of other countries. The more developed an economy, the greater the proportion of employment in service-producing industries. Employment by economic sector in a number of countries is presented in Table 1. For example, 13.2% of those employed in Mozambique in 1976 were in the service-producing sector. In India, 16.5% were thus employed. In Egypt, 30.5% of those employed were in the service-producing sector. In Brazil, service-producing industries employed 37.8% of the workers. This is in contrast to 51.5% in Japan, 57.2% in Sweden, and 64.3% in the United States.

It is important to note that more highly-developed countries are also characterized by larger percentages of people employed in manufacturing. In Mozambique, 5.4% were employed in manufacturing in 1976. In India, 9.5% were thus employed. In Brazil, 11.0% were employed in manufacturing. In Egypt, 12.9% were in manufacturing. In the more highly-developed economies the percentages were as follows: United States, 22.7%; Japan, 25.2%; Sweden, 28.0%. There is little doubt that the development of manufacturing industry remains a prime consideration in any national development strategy. The point is that manufacturing should be only one part of such a strategy.

A comprehensive strategy aimed at the economic well-being of any community should recognize the unique opportunities which each community has for development. Each possesses a special combination of natural and human resources, market conditions and institutional factors. If local policy makers are to maximize economic well-being in their communities, they should

carefully analyze all opportunities available and invest in those which have greatest pay-off potential. State or provincial policy makers should likewise be aware of the options open to communities within their influence. National lawmakers interested in developing specific regions or aiding particular groups of people need to recognize what can and cannot be accomplished by various programs.

It seems clear that any community economic development strategy should be based on a careful analysis of unique needs, resource availability, market conditions and citizen goals. Considerable time could be given the subject of analysis of the needs and goals of people. Are the citizens of the community seeking supplementary household income? Are they interested in economic growth or stability? Is there a highly-skilled but unemployed segment in the population? Similar time could be given the subject of resource availability and market conditions. Is there much unused land suitable for irrigation? Does a significant mineral deposit lie unexploited beneath the soil? Is there a strong demand for a manufactured good in a nearby community? Much has been written on these topics. For purposes of this paper it will be assumed that an analysis of the realistic economic potential of a community is the first step in the creation of any development strategy.

This paper is directed toward the next step in policy development. It outlines a theoretical framework for examining community economic policy options which can be set next to this primary analysis (needs, resources, markets, goals) in order to chart a realistic strategy for development. The

basic community economic policy options considered are: (1) Attracting new basic employers; (2) Improving the efficiency of existing firms; (3) Improving ability to capture dollars; (4) Encouraging the formation of new businesses; and (5) Increasing aids received from broader governments.

Attracting New Basic Employers

The most common effort of local leaders hoping to improve employment and income in their community is the pursuit of new basic employers. Basic employers are essentially those industries which produce goods or services for which payments are received from outside of the community. The rationale is that basic industries will more fully utilize local resources which in turn will bring income into the community to be dispersed among those who already live there. People who are unemployed or underemployed will receive wages for their labor and management skills. Natural resources such as agricultural lands, forests and mineral deposits which are not fully exploited will generate greater income for the community. Through the multiplier effect, this income in turn will be spent on goods and services in the community, producing still more income and employment.

Historically, much effort has been aimed at attracting new manufacturing firms, expanding arable agricultural lands through irrigation, or developing extractive industries such as mining and forestry. More recently it has been recognized that certain nonmanufacturing industries are also basic employers (e.g. insurance companies, nonresidential construction firms, wholesaling businesses, computer services, the hospitality industry). In addition, many

non-local government offices in the community are basic employers. Non-local government offices more fully utilize the labor and management resources of a community, export services beyond the community, and in turn expand the income available for dispersal among the people already present. They are an ever-growing percentage of future employment opportunities in more developed economies.

A number of options are available to policy makers interested in attracting new basic employers. None will assure that new basic employment occurs unless the policy makers themselves initiate the development. Most of the options propose action aimed at creating an atmosphere which provides positive incentives for new businesses. In all cases, the terms "industry" or "industrial" are to be defined broadly to include insurance companies, nonresidential construction firms, wholesaling businesses, and other basic industries.

1 - Communities may expedite the introduction of new employers through the development of industrial sites, the extension of sewer, water, rail and power lines, investments in speculative buildings, and labor force surveys. None guarantee new industry, but all facilitate movement to the community and at minimum evidence community interest.

2 - Collective action can be encouraged through the formation of organizations such as industrial development corporations. These corporations may provide the organizational and financial base necessary for an effective industrial development program, including a program of search and reception of potential businesses.

3 - Community and regional infrastructure may need to be developed if new employers are to be attracted. Transportation facilities such as airports, highways, railroads, and ports may need modernization. Inadequate banking, accounting, computer services, communication mechanisms and legal assistance may inhibit development in some communities. Community services are increasingly important in industrial location. Schools, parks, restaurants and health care facilities all play a strong part in a community's ability to attract new basic employers.

4 - The availability of capital can attract business. Community leaders can do much to help utilize local capital resources. Many states in the United States have authorized community industrial bonding programs. A mechanism is provided by which the local government can indicate that the bonds of a specific company have special status providing for some tax exemption on interest paid the bond holder. The bonds are generally sold privately and the funds used for investment in new plants and equipment. In some communities bank lending limits may be low, restricting capital availability to only the smallest businesses. In these cases, joint lending relationships can be developed. Direct public loans are sometimes provided individual businesses when capital is otherwise unavailable.

5 - Another option available to policy makers interested in attracting new basic employers is the identification of specific public programs, projects, offices and services which could be located in the community and then organizing politically to secure them. For example, the staff salaries, expenses, and office space costs of a regional development office may represent significant

economic development to the community where it is located. Services are exported to surrounding communities and tax dollars from other communities represent real income to the community of location. The same can be said for state or provincial governmental units such as district highway offices, or regional or local offices of national agencies such as agricultural experiment stations. Government is a prime employer not to be overlooked.

Improving the Efficiency of Existing Firms

The continued good health of businesses already located in a community is vital. The more efficient they are, the more competitive they can be in the long run in regional, state, national and world markets. Existing firms which remain competitive provide continuing income and employment. If the firms are locally owned, the expenditure of increased profits and costs of financing bring even greater benefit to the community.

The expansion of existing businesses is a major source of employment growth and often the basis for greater exploitation of natural resources. For example, the Wisconsin Department of Business Development reports that from 1970 to 1976, 590 plant locations new to the community occurred in Wisconsin. During the same period, 2,993 firms reported plant expansions in communities where they were already located.[2/]

Policy makers interested in improving the efficiency of existing firms have a number of options.

1 - The management capacity of existing firms can be strengthened through educational programs. Special courses in finance, personnel

administration, business organization, marketing, etc., can be developed for the managers of manufacturing and other basic industries as well as service and retail outlets. Expanded public investment in university outreach and vocational-technical adult education programs can be effective if properly encouraged by local leaders.

2 - Courses from science and engineering schools could be helpful in keeping business abreast of the latest developments in technology. Once again this may require an expanded public investment to make such information available on a widespread basis.

3 - The community might aid employers in improving work force quality through educational programs, employment counseling, and social services. Vocational education programs can significantly improve the skills of potential employees, thereby improving product and service quality and reducing costs per unit of output. Effective employment counseling programs can speed up the process of filling vacant positions and can improve the fit between worker interest and ability and the job. Social services of several types are of direct aid in improving business efficiency. For example, alcohol counseling can reduce business losses from worker absenteeism. Day care facilities can reduce the incidence of parents not reporting to work because of child care problems.

4 - The identification and organization of capital resources may be of even greater importance to existing businesses than to those being sought from outside the community. Business growth generally requires capital investment in new technology, market development and physical facilities. In smaller

communities, the funds required may be beyond the single-loan limit of local banks. While firms headquartered in larger cities may have ready access to large financial institutions with a ready capacity to analyze and support loans for business expansion, such may not be the case in many communities. Passing comfort resolutions for industrial revenue bonding, creating small business investment corporations, and being aware of resources available from and contacts with national agencies are activities which can be pursued. (In the United States public agencies such as the Small Business Administration, Farmers Home Administration and the Economic Development Administration are all engaged in credit extension.)

5 - As in the case of attracting new businesses, investments in community and regional facilities may improve local business efficiency and access to nonlocal markets. Transportation, service, and communications infrastructure should be as efficient as possible. For example, an order lost because of telephone or postal service breakdown is a lost income and employment opportunity. It is clear that taxpayers in a community should not be expected to pay all the cost of investments which improve local business profits, but basic services which are not competitive with those of other communities place any firm at a disadvantage.

Improving Ability to Capture Income

The citizens of every community receive income in the form of wages, interest, dividends, rental receipts, insurance benefits and government payments. Likewise, businesses receive income from product and service sales,

rental payments, and other sources. Local governments receive income from property taxes, services provided, and aids from state/provincial and national sources. Every bit of this income which is expended within the community for retail or wholesale goods, services and industrial inputs adds to the employment and income of the community. It is clear that not all community income can be expended locally. Nonetheless, the larger the percentage spent locally, the better off the community.

Not only may effort be made to capture monies generated within a community, but the opportunity to acquire monies generated in other places exists. Tourist-oriented activities and establishments may attract people from a wide geographic base, thereby functioning much as any basic industry in expanding income and employment. Shopping centers in larger cities have much the same effect insofar as they draw shoppers and their resources from neighboring municipalities.

Those interested in expanding a community's ability to capture income may choose from several options:

1 - The market potential of existing retail outlets may be identified through surveys aimed at determining consumer needs and buying habits in a specific trade area. Stores may be open during the wrong hours to be most readily available to potential customers. Desired goods and services may be missing or presented in an improper fashion. As a consequence, income is spent in other communities. On the other hand, products may be stocked which no one desires. Changes in buying patterns need to be identified. Customer surveys have a limited life and need repetition over time to be most useful.

2 - A community may improve the share of the retail market captured through downtown analysis and renewal. Business districts in parts of the world are hundreds of years old. Over time nearly all have experienced modification, usually one business at a time. In many cases, some stores may be run down, empty, and unsightly, causing all to suffer. Shoppers turn to modern, attractive, highly-capitalized shopping centers. If small town, neighborhood, or downtown retail outlets expect to remain alive they must know and understand their competition. In addition, they must undoubtedly support a well-thought-out plan of merchandizing, advertising, and physical plant design.

3 - The quality of service offered by a community's businesses is vital to the capture of income. Belligerent, unresponsive, or ineffectual behavior by employees can drive customers away. Policy makers can aid firms in developing employee training programs to improve service quality.

4 - Purchases by nonlocal people (tourists, neighbors, passersby) are a vital part of the economy of many communities. As a matter of fact, the economies of some countries (e.g. Monte Carlo) are almost entirely dependent upon these revenue sources. Advertising and promotion programs are absolutely vital in most of these cases. Successful programs generally involve considerable collective effort. Joint funding by individual businesses, communities, and units of government of a major annual event or ongoing advertising and promotion is an action opportunity.

5 - Concentrated effort aimed at encouraging citizens and business people to buy locally may also have some effect. The importance of consumer buying

within the community is usually recognized and regular sales events are often held. Sometimes overlooked is the importance of industrial input purchase. Support of local supply houses, business service agencies, transportation and communication firms may be as important to the local economy as employing local people. Emphasis on this in local information campaigns may have some effect.

6 - Nearly all of the options suggested in this area will be enhanced by the collective action of a local business organization. This type of organization can provide the needed direction and sense of participation which generates broad involvement in development. Without it, little is apt to happen.

Encourage Business Formation

There is a continuing need for the creation of new businesses to meet the shifting demands of people. As populations grow, new businesses are required to service the expanding demand for goods and services. Likewise, people move from one geographic area to another, forcing a shift in the quantity and quality of products which must be provided by the community. In addition, technological change generates products and services often of a completely different type. New businesses must be created to fill the gaps. A shift in consumer preference or business methods may have a similar effect. All of these forces represent an economic growth opportunity for someone or some community. There are policy options open to those interested in encouraging business formation.

1 - A major problem in the formation of most new businesses is the lack of adequate capital. Policy makers at all levels have several options to aid in the provision of capital to the local entrepreneur. Locally, they can encourage investment of private funds through the formation of capital groups. Small business investment corporations, community development corporations, and other forms of venture capital institutions are examples. More direct assistance may also be provided through loans and loan guarantees, especially tailored to emerging businesses or to specific client groups (e.g. racial minorities, depressed regions). Other mechanisms for organizing community capital are possible.

2 - Individual counsel and intensive education in advanced technology, business methods, and law may also be provided those interested in forming new businesses. In some parts of the world major public investment provides considerable individual counsel to those interested in getting into farming while little public support is provided other economic sectors. Much could be done by community leaders and other policy makers to prevent the failure which all too often accompanies those attempting to create new businesses.

3 - The market potential for new retail, wholesale, and input-providing businesses could be identified by careful analysis. For example, it is conceivable that a local firm is purchasing an input produced at a distant point. Market demand projections might indicate significant economic advantage for local production and supply of the input. This kind of research may be beyond the scope (financial or otherwise) of an existing firm which would be quite anxious to be the supplier. Public financed market analysis can often lead to the development of new local businesses.

4 - Many of the policy options which are effective in attracting businesses and improving business efficiency are basic necessities in the formation of new businesses.

It must be noted that the entire concept of encouraging business formation is unacceptable to some. The policy options suggested would be viewed as undue public interference with the private sector. Whereas business management education is generally acceptable, aid in business formation may be viewed as fostering unfair competition. The matter can only be resolved by the policy makers involved.

Increase Aids from Broader Governments

Citizens and businesses within a community are usually subject to taxation by a number of governmental units. These taxes are used to support local government services, public schools, regional commissions, state/provincial government programs, and national activities such as health care and national defense. It is clear that a taxation system is necessary to provide public services. Nonetheless, assuming an established structure of taxation, it is to the short-run economic advantage of a community to reacquire funds taxed away by broader governmental units and, if possible, to acquire monies taxed in wealthier communities.

Most public expenditures in a community from broader units of government have the same general effect as purchases by other external entities. These expenditures may range from the purchase of a meal or supplies by a government employee to the massive infusion of government transfer payments

such as old age and survivor's insurance, aid for dependent children, and school lunch programs. Dr. Luther Tweeten of Oklahoma State University states: "Welfare reform, with federal takeover of public assistance programs, would bring in dollars and as such, public assistance may be defined as an 'export industry.' The argument for reform rests on grounds of efficiency as well as equity. On efficiency grounds, a given real income to those receiving public assistance can be provided at lower costs in a rural area than in the metropolis."[3/]

In recent years, increasing the population of elderly has more frequently been viewed as a developmental opportunity. Historically the elderly required significant public financial support. Community leaders judged a large elderly population to be a drag on a community's economy. They were supposedly a dependent population. Today with substantial social security payments, medical assistance, and strong pension programs, the retired people in a community may possess a higher-than-average income. This is particularly true if they move from larger cities to smaller towns at retirement.

Public policy makers can play a direct role in increasing aids from broader governments.

1 - Educational and other program efforts can be organized to insure the correct use of public assistance for the elderly, handicapped, and others who cannot work. In a recent report by Dr. Peter Helmberger of the University of Wisconsin, it was found that if the citizens of Dane County, Wisconsin, eligible for food stamps (a national program) used stamps at the national

average rate, income in Dane County would increase by $1,600,000 annually.[4/] This income would represent the equivalency of a significant job growth. Government transfer payments are a major share of income in many communities and the general economic well-being of people in some wide geographic areas is more dependent on this income than private sector activity.

2 - A large number of aids from national or state government are often available to assist local governments in development. These might include monies to support street or highway construction, park and recreation development, sewer and water systems, school improvement and other forms of infrastructure. This infrastructure is essential to economic development but it should be remembered that the injection of capital to bring about the improvement is itself a mechanism for raising economic well-being. Thus, aids such as funds for emergency employment which do not provide long run infrastructure improvements should also be viewed as positive economic activity. The programs of broader governments should be actively monitored and utilized by local governmental officials interested in economic improvement.

3 - Policy makers interested in the economic well-being of their people also have the option of direct political activity. They can support political activities aimed at insuring fair treatment of community concerns by broader governmental units.

Conclusion

A wide spectrum of options are available to policy makers at all levels of government. At the national level, the decision might be made to provide

special tax incentives to encourage business expansion in areas of high unemployment. Funds might be provided for counseling people interested in starting new businesses in low-income areas. Special infrastructure aids might be provided depressed communities.

At the state or provincial level, business efficiency might be encouraged by providing educational programs in business management. Tourism promotion organizations might be partially financed to help capture dollars from other states or nations. Direct loans might be provided firms attempting to cope with changing environmental standards. Income transfer programs might be developed to assist financially disadvantaged groups.

In most cases, action by local policy makers is vital if real community economic well-being is to be achieved. A myriad of opportunities may be provided by broader governments. Without local initiative, however, little will be accomplished. Many of the development options available involve no aid from other governments, but simply local decision and action.

Those interested in community economic development should first examine the goals, needs, resources, and market conditions of the people and areas concerned. These factors are the base on which development policy must be built. The framework for analysis of developmental options is wide. In selecting programs aimed at improving income and employment, policy makers need not be restricted to historic efforts directed at expansion of the goods-producing sector. A sound developmental policy must be comprehensive, including consideration of all available options.

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